



**RYANAIR**



## THE CHALLENGE OF REPLICATING SOUTHWEST AIRLINES IN EUROPE

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The future model of the international airline business, or more importantly its salvation, has arrived. In the US its called Southwest Airlines. There may be some people here who have not heard of it yet - I warn you you will. Equally, there may be some among you who may have heard of Southwest - but believe that it "will never happen here" - in Europe. To you I say just one word, "McDonalds". Just as surely as the Big Mac has revolutionised the fast food industry ... so will Southwest and its replicas, change the way we view air travel and manage the airline business.

Southwest Airlines was born in 1970, weaned through the oil crisis recession of the early '70's where it rethought, implemented, and has since adhered to many unique operating practices which are the antithesis of conventional airline wisdom. In the process, in each of the past 20 years, it has remained consistently successful and more importantly profitable, despite repeated attacks by bigger and better financed competitors. It has an outstanding record of turning disadvantage into competitive advantage, and motivating incredible staff and passenger loyalty. Southwest also tops all Customer Service polls, was rated in a recent survey as one of the safest airlines over the last 20 years, and is now expanding aggressively across the United States whilst instilling fear and panic in all of its competitors.

The airline is run by a quiet, humble, rather sober, Chief Executive called Herb Kelleher, who was one of its founding fathers, and his achievements with Southwest were rightly recognised by Fortune magazine recently, who named him as perhaps the best CEO in corporate America. More than anything else, Herb Kelleher's iconoclastic approach towards his people, and his business is the reason why the airline, now serving 41 cities is so consistently profitable in a business stuck in intensive care.

Most of the rest of the airline industry, has recently woken up to the Southwest phenomenon, and the success of its formula. A lot of lip service is currently being paid to copying Southwest or doing it the Southwest way. Most of these will not succeed, because in my view, they fail to understand the basic concept, or alternatively they understand but fear to apply it in their own operations. Make no mistake, Southwest is not simply "good old boy" spirit. It is a lean, innovative, aggressive airline, and one of the very few in this industry that has defined precisely the market it serves, and delivers exactly what that market requires.



## RYANAIR

Ryanair was set up in 1986 by Cathal, Declan and Shane Ryan to take advantage of the first phase of the liberalisation of air transport in Europe. We met with considerable initial enthusiasm and public support, by introducing low fares and competition on the Dublin-London route which had, prior to that date, been operated under the old route sharing, high fare, no growth cartel of the then State Airlines Aer Lingus and British Airways.

Unfortunately, we made the traditional airline mistakes, over expanded, into a broad network of unsustainable routes, an unmanageable fleet, which despite only having 8 aircraft included four different types, feeling a compulsive need to serve food and freebies to every single passenger in every single market going everywhere, with the result that we finished up going nowhere other than back to the Ryans for massive dollops of financial support. By 1990, we were carrying 700,000 passengers, generating total revenues of £40 million, were managing to lose £7 million a year, and had eaten up £20 million worth of precious equity in just four years. To compound matters, we were facing a competitive environment in which the Gulf war, and deep pockets of our national airline - Aer Lingus - were combining together to speed us on our merry way to oblivion.

Our Shareholders at that time correctly screamed "enough". Seeking solutions, the Ryans looked around at other alternatives, and the only one which made sense to us was the Southwest model, which at that time was facing and comprehensively beating similar type competitor behaviour. We then set about re-modelling Ryanair, its culture, its operating characteristics, and its focus, by replicating and adapting as much of Southwest's philosophy as quickly as we could in our own environment.

In the four years from 1991 to 1994, Ryanair has down sized from 18 to 9 routes, (four of which are new this year) down sized employment numbers from 570 to 525, down sized the fleet from 4 different to 1 all Boeing fleet, and (the ultimate heresy) reduced our average yield by almost 50%. Ryanair has in the process increased traffic numbers by 300% (we will carry over 2.1 million in 1995), more than doubled our turnover and more importantly, has remained consistently profitable, during each of the years 1991, 1992, 1993, and 1994. I know of no other airline in Europe that can match this performance in restructuring itself over that four year period.

May I briefly take you through some slides, which will better illustrate the nature and extent of this turnaround.

As you will readily gather from our mission statement, we make no bones about where we are going or how we propose to get there. I believe that Ryanair is now the lowest cost airline in Western Europe. Nevertheless, our objective will be to drive down our unit costs even lower, every year, during the 1990's. We will continually use our lower and falling unit costs, to offer lower fares, with increased availability and higher frequency in every market in which we operate.

We will continue to provide a "low fares/no frills" service. Many airlines object to using the term "no frills" because it implies an inferior level of service. In Ryanair we do not. We are engaged in a process of re-educating the airline passenger, and since we are pioneering this development in Europe, we want every passenger to be readily aware that whilst our service will be efficient and friendly, there are and will be no frills. As a Ryanair passenger, you will not get "complimentary" meals, newspapers, hot towels, and champagne. You will, however, get a £59 or £69 return fare (and we make up to 80% of our total seats available at these two fare levels), an on time and efficient schedule, onboard high quality Boeing 737 aircraft, and above all a friendly service. Ryanair's fares are up to six times cheaper than some of those charged by Aer Lingus on similar routes. Who in their right minds, would pay 500% more for a "free" breakfast and newspaper?

We will, for as long as we live and breath in Ryanair, continue with tunnel vision to aggressively pursue this mission. If we remain dedicated to improving our performance on each of these key fronts, the profits will continue to look after themselves. Ryanair is, I believe, probably the only airline in Western Europe that doesn't overly focus upon its yield per passenger. We manage the airline by ensuring that our cost base each year will fall by more, and further, than any decline in yield. Both our yield and our load factor remain flat throughout the year, with the latter being maintained at 80% systemwide, year round. We do this not by playing the traditional airline games with yield management. We do not close off the cheap seats when advance bookings are strong or during peak periods. By contrast, we try to increase our seat capacity on these occasions, either by flying extra sectors with our own aircraft, or alternatively leasing in additional aircraft (Boeing 737's and 757's) solely to keep the fares down, and drive up the passenger numbers.

Our route network has changed dramatically in 1994. Prior to this year, Ryanair was essentially a one route airline. Our services on the Dublin-London route accounted for 70% of our traffic and revenues. This year, however, we have successfully opened up four new routes from Dublin to Birmingham, Manchester, Glasgow Prestwick



and London Gatwick. Our impact on these routes has been dramatic. In each case, despite the fact that we are still in our first year of operation on these routes, total route traffic has increased by almost 100% and Ryanair has captured in excess of 50% of this enlarged traffic base, sometimes within a matter of months. In doing so, we have not sought to take existing traffic from the existing operator (Aer Lingus). This is not our market. Instead, we hoped to dramatically grow each market and capture the entirety of this incremental growth. In each and every case to date, we have been successful in achieving this objective, and those "potential passengers" who prior to our arrival were not flying because of average return fares of up to £200, have responded in massive numbers to our low fares. Take Manchester Airport for example. We did not fly there last year. We will this year probably become their second largest scheduled airline!

Southwest Airlines was built upon a similar market growth strategy which envisaged not necessarily competing with other airlines, for a share of an existing market, but rather to expand and exploit new markets by "competing with roads". Southwest's objective was to price its products so attractively that passenger's in their thousand and indeed millions would transfer from Greyhound buses, or from driving on inter-state highways, and instead fly with Southwest. In Ryanair, we see ourselves, when opening up new routes, as not attacking Aer Lingus' existing traffic base, but rather stimulating two new markets. The first is the existing price sensitive passenger traffic which is travelling by bus or car on cross channel ferries, and secondly to stimulate that large discretionary market which can be encouraged to fly between Ireland and the UK, either because the airfare is so attractive, or equally, to fly far more frequently each year for the same reason. In just four years of working this strategy, Ryanair is now the largest operator (in terms of traffic) on all our routes, we have increased our share of the Dublin-London market (undoubtedly Europe's most competitive) from 15% to 36% and rising. We have also increased our share of the Ireland-UK market from 12% to 35% and rising. More importantly we have - without increasing our employment numbers - trebled our traffic, doubled the size of our route network, and during a four month period, in Spring 1994, replaced our entire fleet of BAC 1-11's with a fleet of modern Boeing 737 equipment.

The extent of the "Ryanair factor" on the Ireland-UK air traffic market, was clearly illustrated by the Irish tourist board's recently released air traffic figures for the period from January to September 1994. During this period, cross channel air traffic grew by a record 17% (almost 500,000 incremental passengers). Despite the fact that our Manchester and Glasgow Prestwick services only commenced in May, (ie midway through the period) Ryanair has accounted for 82% of this total passenger growth.

The reason I illustrate our performance in the past four years is as follows. Southwest style services can be replicated in Europe. Successfully and profitably. In terms of size and impact on European aviation, we could be viewed presently as a "niche" airline, operating in a "peripheral" market between Ireland and the UK. To those airline executives who take comfort from this - remember one fact. Throughout the first 10 years of its existence, Southwest also, was a "niche" airline operating in a "peripheral" market. Just years ten later, it threatens every single major airline in the US.

I do not propose that Ryanair will in ten years time threaten every major airline in Europe - it will not. We will grow and expand successfully, but above all cost consciously. Nevertheless, I believe that we are proving that Southwest can and is being replicated in the European market place. Continental Europe is a market with over 300 million people most of whom are now paying outrageously high air fares. I assure you that this is a market which Ryanair will not ignore but I cannot reveal our strategy today. In addition, I am sure that other "no frill" airlines will commence services in other European markets over the coming years. The rate and speed of their impact may vary due to a number of remaining barriers which are impeding true liberalisation in Europe. However, I warn you, post 1997, when cabotage and many of the remaining restrictions are gone, short haul, cost efficient, point to point airlines will sprout up throughout Europe. They will in a short space of time change the face of European air travel. I give this conference fair warning. We do have precedents other than Ryanair. If you look at many of the charter airlines in Europe, (and I would highlight Britannia and Transavia as examples), you see very efficient, very professional, very profitable, low cost airlines.

As attendees at this conference, each and everyone of you will be well educated, occupy senior and responsible positions in your respective organisations, and on a day to day basis are making decisions which will collectively determine the future of international aviation. I put to you a thought. What is the first question you or your organisations ask when purchasing an airline ticket?

- |                              |        |
|------------------------------|--------|
| - Do I get a free newspaper? | - No ! |
| - Do I get a free meal?      | - No ! |
| - Do I get a free drink?     | - No ! |

99% of all airline passengers, and I do not care whether they are individuals purchasing for themselves, or companies purchasing on behalf of their employees, want lower, and where possible the lowest air fare. A recent survey of the top 1,000 Chief Executives in



Ireland, was carried out by the National Chamber of Commerce and 92% (yes...92%!!!) of all respondents confirmed their view that Business Class did not provide good value for money. It is Ryanair's objective to give them what they want, and the challenge for the 1990's will be for Ryanair to drive its costs sufficiently downwards, so that we can pass on lower and lower air fares, but in turn are rewarded with fantastically higher traffic numbers, in new markets, where none are presently thought to exist.

## **SOUTHWEST AIRLINES**

Let me now turn to address the detail of what Southwest does, and how it does it.

At the core of Southwest's operation, and beneath the image of a "lunatic at the helm", lies an intense and never wavering focus upon costs, costs, and more costs. It permeates the culture at Southwest to an extraordinary extent. It goes from the top down, and more importantly from the bottom up. Nor at Southwest is it simply a case that they buy better, negotiate tougher, beat up their suppliers, or indeed their staff - they don't. I believe it derives quite simply from a constant focus upon challenging every conceived wisdom in the airline industry, and constantly innovating new procedures and systems with the sole purpose of increasing efficiency, heightening productivity, eliminating unnecessary frills, and above all reducing costs.

I would like to draw your attention to some of the simple (often heretical) challenges of Southwest to many of the accepted traditional wisdoms of the international airline business.

### **1. Fleet Commonality;**

Southwest despite having a fleet of in excess of 150 aircraft only operates one aircraft type - namely the Boeing 737 in its 200, 300 and 500 series variants. Most other airlines operate mixed fleets, primarily designed to service individual markets with what they perceive to be their appropriate capacity. Southwest does not. It will look at a market, and try to use low fares in order to build up traffic to sustain high frequency 737 capacity. This fleet commonality produces outstanding cost and productivity efficiencies. All of its pilots and cabin crews can be used on all of its aircraft. All of its inflight and ground handling equipment is standard and capable of servicing 737 aircraft, again generating substantial cost and productivity efficiency.

## 2. Efficient Operations

Southwest is engaged in a continuing quest for simple, efficient and effective operations. Southwest services are characterised by short stage lengths, in the main, between secondary airport points (therefore minimising the interference of ATC problems, air and ramp delays at congested airports). The entire operation is built around point to point services, (avoiding the difficulties associated with hub and spoke operations, interline, through and feed traffic etc). At boarding, and indeed onboard the aircraft, passengers experience a basic service. This extends from clever devices such as plastic reusable free seating boarding cards, which encourage passengers to congregate at the 'gates' immediately prior to the commencement of boarding, and ensures that aircraft are boarded considerably faster than is the case where preallocated seating exists. Onboard the aircraft, the seating is single cabin configuration, thereby maximising the passenger capacity of the aircraft. There are no free meals, towels or newspapers, thereby eliminating any incremental passenger costs.

At the heart of Southwest's operation are its legendary short turnarounds. Whilst these in its early years averaged 10 minutes, they are now edging upwards to 20 minutes, which is still a phenomenal achievement on aircraft which are predominately flying full. This allows Southwest to achieve at least two additional flights per day per aircraft. Why should an aircraft sit on the ground for an hour, on turnaround, if you can arrange your operations in such a way that your passengers and people combine to assist you to get the aircraft back out and flying again within half an hour? The potential for this extraordinarily simple efficiency is unlimited. If you take a 737 aircraft with 130 seats, and by reducing your turnaround times, can get two more flights per day 364 days a year into it, you have automatically increased the potential efficiency of that aircraft by 100,000 seats, or about 75,000 additional passengers, per aircraft per year. Multiply 75,000 passengers, per aircraft, per year by your existing average yield, and both the revenue and profit potential is extraordinary.

## 3. People and Aircraft Productivity

The Southwest approach in not accepting the perceived airline norms or wisdom, results in an extraordinarily low cost airline, whose aircraft, and people productivity are not just better than its peers, they are in a different galaxy. The comparisons are unfair. Southwest is simply a giant among dwarves. A Gulliver among the Lilliputians. Despite the excellence of Southwest's operation, they continue to strive



to go further. They are currently blaspheming against the standard airline dogma of centralised reservations systems, have pulled out of most of them, and are designing their own. They are also implementing additional dramatic cost saving initiatives such as ticketless air travel and exploiting direct sales opportunities. The quest goes on.

#### 4. The Kelleher Culture

Despite this heady cocktail of productivity and efficiency Southwest has added one further element which Ryanair itself has only just begun to tackle, and which will I believe take us some time to achieve. This is the "Kelleher Culture". Kelleher on the one hand is shrewd, sharp and focused, and on the other, is a raving lunatic having fun.

Kelleher has imbued his people and Southwest with a "can do", service orientated culture. The ethos of Southwest is to provide a service to the passenger which will amuse, surprise and entertain. They hire people, not attitude. They seek people with a sense of humour, not qualifications. Most of all, they live and breath a work/service ethic of extraordinary insight, yet simplicity. Kelleher sums up this in three short sentences;

"Work should be fun ... it can be fun ... Enjoy it  
Work is important ... Don't spoil it with seriousness  
People are important ... Each one makes a difference"

As a result, Southwest's people are encouraged to provide service with a smile, with a sense of humour, to do dumb and wacky things, as long as it entertains the customer. All Southwest people are encouraged both on the ground and in the air, to ad-lib passenger announcements. Safety drills can be sung to rap music, staff will dress up in costumes, anything at all, so long as passengers can be amused and entertained.

One noted recent example was a cabin staff safety announcement which began "there are 50 ways to leave your lover - but only six exits from this aeroplane".

This culture at Southwest has resulted in an extraordinary phenomenon. Despite being, what I call, a no frills airline, Southwest regularly wins almost all passenger surveys among the travelling public in the US. Customers are responding both with their votes and their feet (or should I say bums). The difference at Southwest is that they don't just talk about service, they don't just talk about friendliness, they don't just talk about fun. They eat it, sleep it, live it, breathe it and above all do it.

### REPLICATING THE SOUTHWEST CONCEPT IN EUROPE

So much for Southwest. The challenge facing Ryanair and other European airlines is to replicate this phenomenon in Europe. I see this in Ryanair at least, as a two phase challenge.

In phase one, we must focus on costs ... costs ... and again costs. We must re-educate the management of the airline. We must challenge and overcome the accepted airline dogmas. Instead of fares falling, we must drive them down. Instead of complicating the operation, we must simplify it. Instead of wasting money and effort trying to bribe the travelling public into paying higher fares, we will give them lower air fares. We will focus on short haul, point to point services, and avoid 5th freedoms, interlines, code sharing etc. We must devise new ways to speed up our turnarounds, to increase our efficiency, to encourage our passengers and our people to help us in this process and thereby achieve lower costs and lower fares.

We must re-educate our people. This is the airline business - this is a fun business. We are neither neurosurgeons, nor masterminds. We can be safe and efficient and at the same time have fun. If we are having fun, the passenger is having fun. To requote Kelleher "we must amuse, surprise and entertain".

Above all, we must re-educate the customer. We must refine their expectations and exploit the almost limitless potency of low fares. Ryanair will state openly what we deliver ... an efficient 'no frills' service at very low fares .. and then deliver it everytime. In four years, we have yet to receive one customer complaint because we removed either newspapers or meals or hot towels or any other frill. We do still mess it up, and we do still get customer complaints, however, almost without exception our passengers will write to tell us when and how we screwed up, but at the same time encourage us to keep up the good work, to keep on driving down the fares and above all keep on improving.



None of these elements of phase one will have any impact unless we spend every waking hour delivering and improving the service. I define Ryanair's service as comprising four key elements.

- Low fares and keeping them low (by increasing availability and capacity) when demand is high
- Delivering an on-time, efficient and reliable schedule
- Ensuring that safety is sacrosanct.
- Above all make the service friendly, fun. Amuse surprise and entertain!

Phase two, certainly as far as Europe is concerned, is a little more difficult, partially because it needs some outside intervention.

Again, at the top of the list in phase two is costs ... costs ... and more costs. Ryanair must never lose this focus, and keep on driving it home. Outside this element in phase two, there are a number of objectives which European airlines, airports and governments will have to come together to solve.

European airports at present, not through design but rather through their operating procedures are inefficient. We have procedures which require airlines to stack, queue, and force aircraft to spend wasteful time on the ground. Aircraft do not make money while on the ground, they only pay their way in the air. Facilities, (runways, taxiways, and stands) procedures, and the utilisation of these must be improved to heighten efficiency. It is in each airport's interest to do so, because if each airline can reduce its turnaround times the prospect remains available to each airport to benefit from additional flights a day, per aircraft, with many fold revenue benefits accruing to the airport from landing fees, PLS charges and above all, income from additional duty free, concession and ancillary revenues at their facilities. In many cases for new entrant airlines, such as Ryanair, these facilities simply do not exist at congested airports such as Heathrow. We will therefore focus all of our energies on exploiting first class alternative airports, such as Stansted and Luton and Prestwick in Scotland. Here at these airports, we work closely with airport managements to expand capacities immediately, respond to market and traffic needs, and organise our operating facilities and procedures in such a way that we can and do achieve our present 30 minute turnaround objective. ,

There are however two other impediments to low cost, Ryanair type services which I would like to draw your attention to. The present organisation and regulation of computer reservation systems are designed for a different age. The present EC legislation with regard to CRS systems requires that they charge all customers equally.

This is a barrier to lower fares and new entrants. I take great exception to paying Galileo over £4 for a return booking at a £59 fare, when other airlines selling first class seats at many thousands of pounds are similarly paying the same equivalent £4 booking charge. CRS systems are outrageously expensive, and not terribly efficient. Airlines will have to force these **existing CRS** operators to dramatically lower their charges or alternatively encourage them to produce a much simpler, no frills CRS service, with limited functionalities, which would enable them to charge far more basic fees. The alternative will be to force low cost airlines such as Ryanair to by-pass CRS systems (and this year already we have pulled out of Amadeus, Apollo and Sabre) and force travel agents and/or the travelling public to book directly with the airline. This is not a trend I would welcome as it would put the airlines at loggerheads with travel agents at a time when both of us need to work together to minimise our costs, in a low fare environment. Nevertheless, the challenge remains and the solution will have to be found ... and quickly.

The second great hurdle to low air fares and efficiency in Europe is Eurocontrol, and the archaic ATC system in Europe. Eurocontrol is in my view, an entirely out-moded, inefficient, independent dictatorship. I can think of no other supplier in the aviation business in 1993 who simply increased its prices by 18% and said "take it or leave it". They then provide probably the most inefficient of all service to airlines, which costs airlines millions of pounds a year in delays, and needless bureaucracy. The example of the ATC industrial relations dispute in Southern France in the last two weeks of July this year was a classic example. The schedules of all airlines operating in and out of Southern France and Spain during that period were horrendously disrupted. I can vividly remember a Ryanair aircraft being stuck on a Sunday morning in Ibiza for four hours before it was permitted to depart. What hope has any airline in Europe of operating an efficient schedule with minimum fuel consumption and shorter turnarounds, when at the whim of Air Traffic Control their schedules and costs can be disrupted to an endless degree. I propose two immediate solutions to the European Commission in relation to Eurocontrol. Firstly, impose a pricing mechanism on Eurocontrol for each of the next five years which requires Eurocontrol to reduce its annual charges by 10% per annum. Secondly, introduce legislation which would penalise Eurocontrol to the extent that every time an aircraft is delayed for ATC reasons, that flight would be exempt from Eurocontrol charges.

Eurocontrol is an impediment which may well drag us all down. European ATC must be unified under one body, with a pricing structure imposed upon it which forces it to reduce its charges and increase its efficiency as all its European airline customers are being obliged to do, our paying customers, the passenger!



The greatest single influence upon low fares and the replication of Southwest style services in Europe will be the European Commission itself. It must proceed at pace to improve both the drafting and the enforcement of its existing competition and liberalisation legislation. I believe that the Commission, and in particular DGIV and DG VII should be complimented on their progress to date, however, I am concerned at a number of recent events. The most glaring example has been the recent approval of State Aid to the likes of Aer Lingus, Air France, Iberia and Olympic. The injection of this State Aid will do nothing to improve the competitiveness of these airlines. It is simply providing further State succour, prolonging inefficient management and working practices. If one takes an example close to my home such as Aer Lingus, here you have an airline which was granted £175 million of State Aid, on a once off, last time basis. Why? Aer Lingus comprises an airline and a group of ancillary companies, some of which could and should be sold if cash is needed (as they would have to be if it was a privately-run, profit making organisation). So what if its a fire sale? All the better as this would compel the management and the staff of the airline itself to get their own house in order, make themselves more efficient, and respond to the changing competitive environment in Europe.

To date, State Aid has postponed this evil day rather than bring it forward in the case of Aer Lingus. Evidence of their failure already abounds. Immediately after receiving the first tranche of State Aid, Aer Lingus began to cut fares, reduce advance purchase restrictions and dilute yields on those routes where they faced competition from Ryanair. Their latest "initiative" has been to defer publication of their 1993/94 accounts and they propose to publish figures for a 21 month period to December 1994, (probably as late as mid-1995). This despite the fact that Aer Lingus has already admitted that their planned loss of £50m in 1993/94 will in fact be at least £80m! Aer Lingus has already and will continue to fail to achieve the targets it established in its own recovery plan. So too I believe will Air France, unless the Court of Justice reverses its recent State Aid. Unless and until State Aid is finally removed from European aviation, competitive efficient airlines will be denied the opportunity to grow and prosper. Chapter 11 has done more to damage the US airline industry than liberalisation ever did.<sup>6</sup> State Aid if it continues will have the same effect in Europe. Stop the Aid. Allow an EC flag carrier to go out of business. America never had one. Why do we in Europe still cling to this outdated concept?

I am also concerned by the relative ineffectiveness of the Commission's competition legislation. Much of this legislation, whilst it is well meaning, was designed for companies and industries, where costs and pricing and by extension abuses by dominant competitors is easily verifiable. As we all know, nothing in the airline industry is verifiable. I firmly

believe that much of the airline industry is in a shambles today precisely because any airline accountant can prove that the cost of an individual aircraft seat is either zero or £1,000. The ability of the industry to apply the 'black arts' of accounting practice is legendary. Change a depreciation policy here, adjust a maintenance reserve there, reallocate an overhead elsewhere, no need to make contingent liability provisions for frequent flyer programmes, or best of all... change the accounting period. The list goes on and is endless. To this extent the airline industry reminds me of Rip Van Winkle, he went to sleep for 100 years and woke up to find that the world had changed. Just like Rip, in the airline business today, we can play with the costs and the revenues, reallocate the overheads, provide or not provide, all with the objective of denying the painful truth and allowing us to sleep well and comfortably. Our problems will not go away. We will and must wake up.

Because of the complexity of airline costings and finances, I recommend that the Commission set up a small special task force, comprised of people experienced in the art of airline costings who can readily and quickly assess the activities of both major and minor airlines, and whether these activities are in breach of competition laws, or indeed the Treaty itself. The Commission, and in particular DGIV is extraordinarily under resourced in this area. They have very few, albeit very good people dedicated to examining competition in the airline industry. It is probably one of Europe's most important industries and the linchpin of our respective economies throughout the next decade. The Commission needs more resources and help to be able to quickly and accurately determine whether or not its rules and legislation are being complied with, and more importantly when they are being contravened. This unit would be entirely self financing, as the fines that would be levied on most of the current contraveners would rapidly pay for and indeed exceed the cost of such a unit.

## SUMMARY

Whilst I have averted to what I believe are short term outside impediments to the replication of Southwest style services in Europe, I would lastly wish to return again to my central theme.

Europe's airline industry has a future. It will work and grow, if bureaucracy and costs are tackled. In the US it is being pioneered and being led by Southwest airlines. Ryanair has shown it can be replicated and adapted to European markets. It can and will happen - just as surely as McDonalds has invaded Europe, from the Champs Elysées to Red Square. All it needs is courage, commitment, energy, and above all initiative. European airlines must



now react, invent and innovate. Ryanair remains quite certain that Southwest has not cornered the market in inventive ideas, although they are years ahead of anyone in Europe, including even Ryanair. I can do no more at this conference than suggest where I think the challenges face Ryanair. Beyond that, I hope to ensure that Ryanair is at the fore front and in the vanguard of this development in Europe. I am here today giving my first and last speech. I am returning to Dublin this evening to continue to work with the outstanding 525 people in Ryanair so that we continue to advance and progress, to innovate and initiate, and above all to give the public and consumer what they really want, lower air fares, and punctual, friendly services.

Yes Ladies and Gentlemen, as Ryanair is proving ... Southwest style service can ... and is being replicated in Europe.

## MICHAEL O'LEARY - PERSONAL BIOGRAPHY

Michael O'Leary is Irish, 33 years of age and Chief Executive of Ryanair.

Ryanair is Ireland's second largest international airline and is the fastest growing scheduled airline in Europe. The airline is pioneering the low fares/no frills service in Europe. Having carried just over 1 million passengers in 1993, Ryanair will carry 1.6 million passengers in 1994, and in excess of 2 million in 1995. The company operates a fleet of 8 (shortly to be 11) Boeing 737 aircraft, on a network of nine short haul schedule routes between Ireland and the UK together with an extensive European charter programme.



## Corporate Mission

Ryanair will continuously strive to become

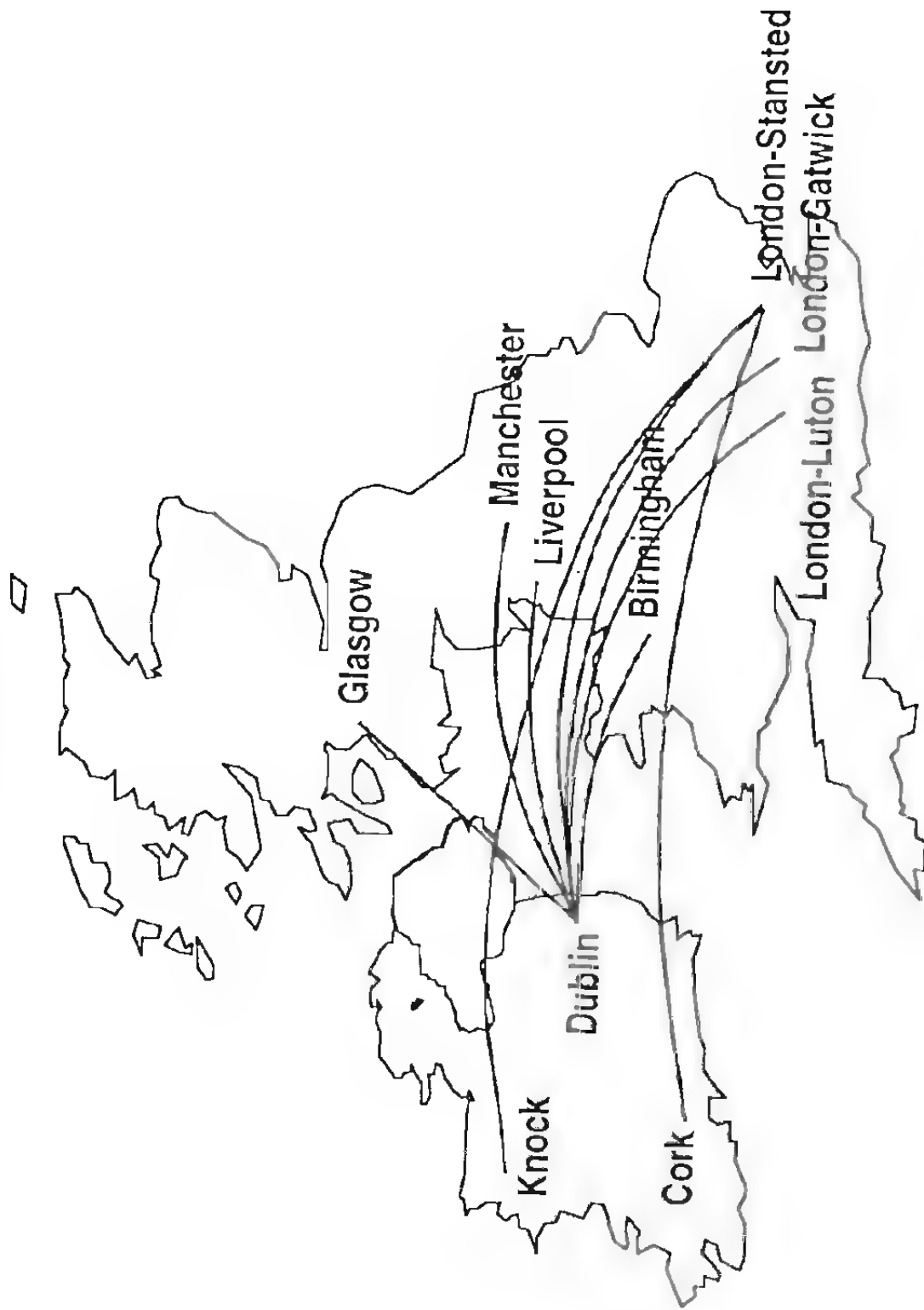
Europe's most successful, lowest cost,  
customer driven, schedule airline by

providing its










"low fares/no frills" service in all markets  
in which it operates, to the benefit of our  
passengers, staff and shareholders.

# Ryanair Limited

## Route Network



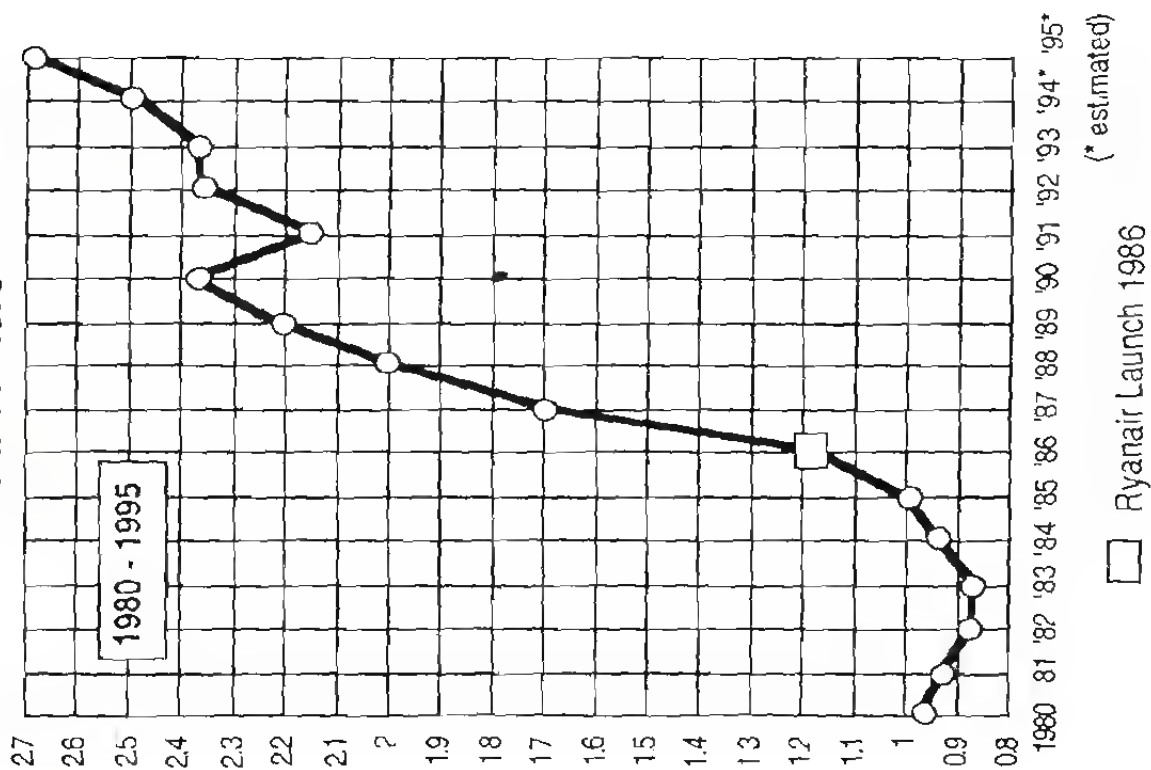
## Operating Benefits

-  Lowest cost operator on all routes
-  Largest operator on all routes
-  32% (and rising) market share on Dublin - London route
-  35% (and rising) market share on Ireland - UK routes
-  Consistently obtains the largest percentage of passenger growth in the Irish and UK markets
-  Unique low cost franchise (aircraft, suppliers, staff)
-  European pioneer of low-cost "no frills" service
-  Plans finalised to significantly expand Ireland - UK schedule/traffic/market share in 1994 and 1995. New routes launched in 1994 from Dublin to Birmingham, Manchester, Glasgow and London Gatwick
-  Successful introduction of Boeing 737 aircraft



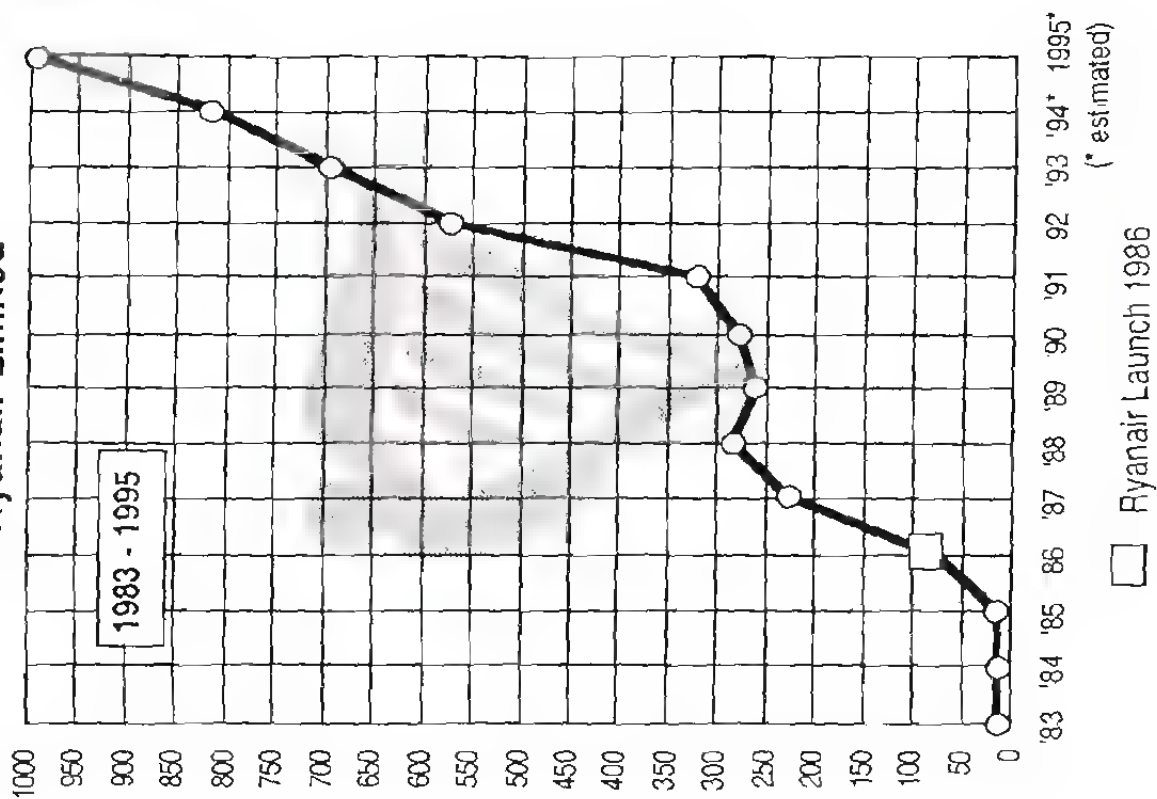
# Dublin - London Traffic Growth

## All Carriers



# Dublin - London Traffic Growth

## Ryanair Limited



# Ryanair Limited

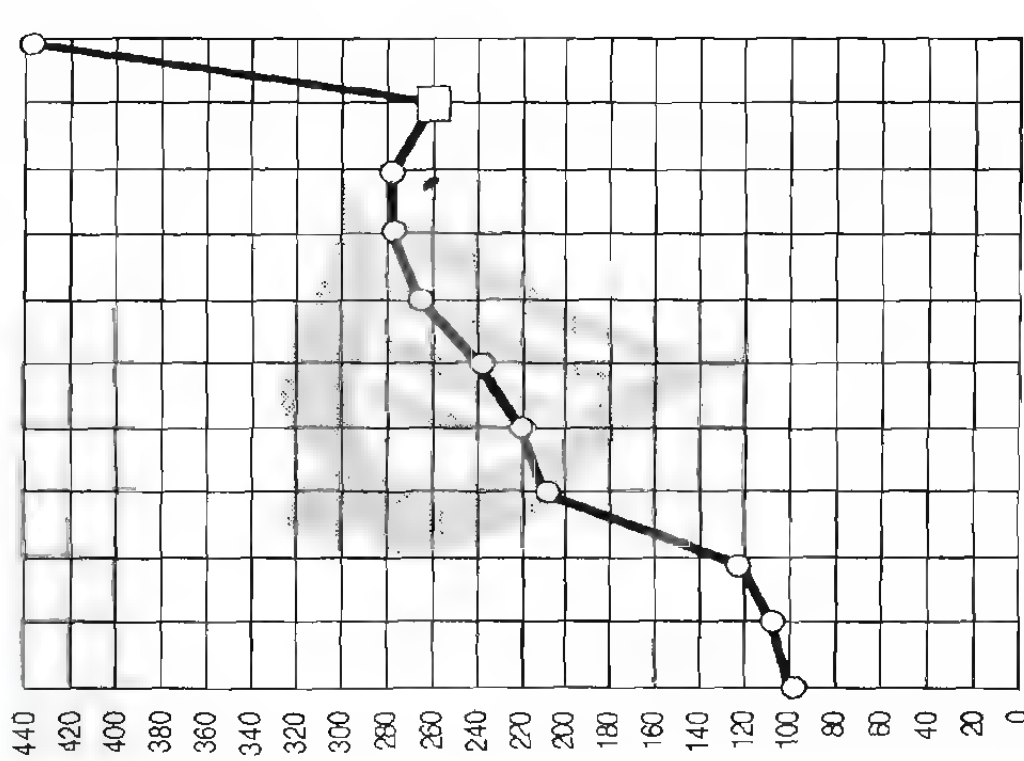
## Dublin - London Traffic Growth 1980 - 1995

Year	All Carriers		Ryanair	
	Pax No's (000)	Annual % Change	Pax No's (000)	Annual % Change
1980	968	-	-	*
1981	924	-5	-	-
1982	890	-1	-	-
1983	879	-1	-	-
1984	929	6	-	-
1985	994	7	-	-
1986	1,121	13	58	-
1987	1,636	46	226	290
1988	1,976	21	278	23
1989	2,243	14	256	-8
1990	2,400	7	273	7
1991	2,051	-15	306	12
1992	2,410	18	578	88
1993	2,400	-	696	20
1994*	2,500	4	800	13
1995*	2,700	8	1,026	28
				38

\*Estimated

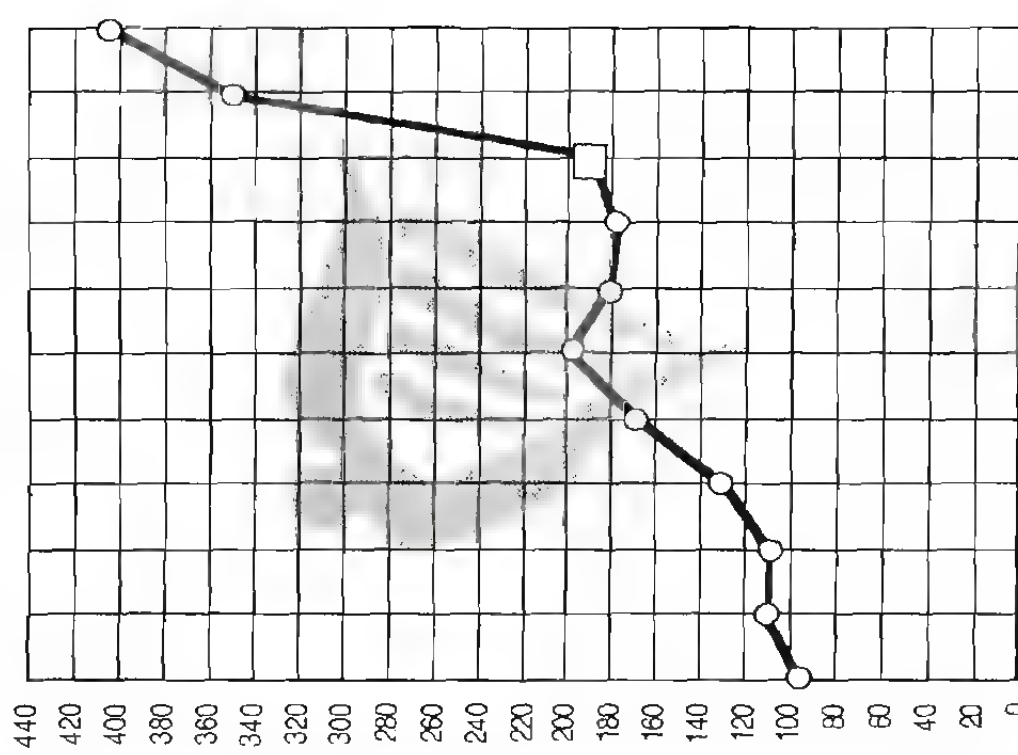
## Dublin - Manchester Traffic Growth

"The Ryanair Factor"



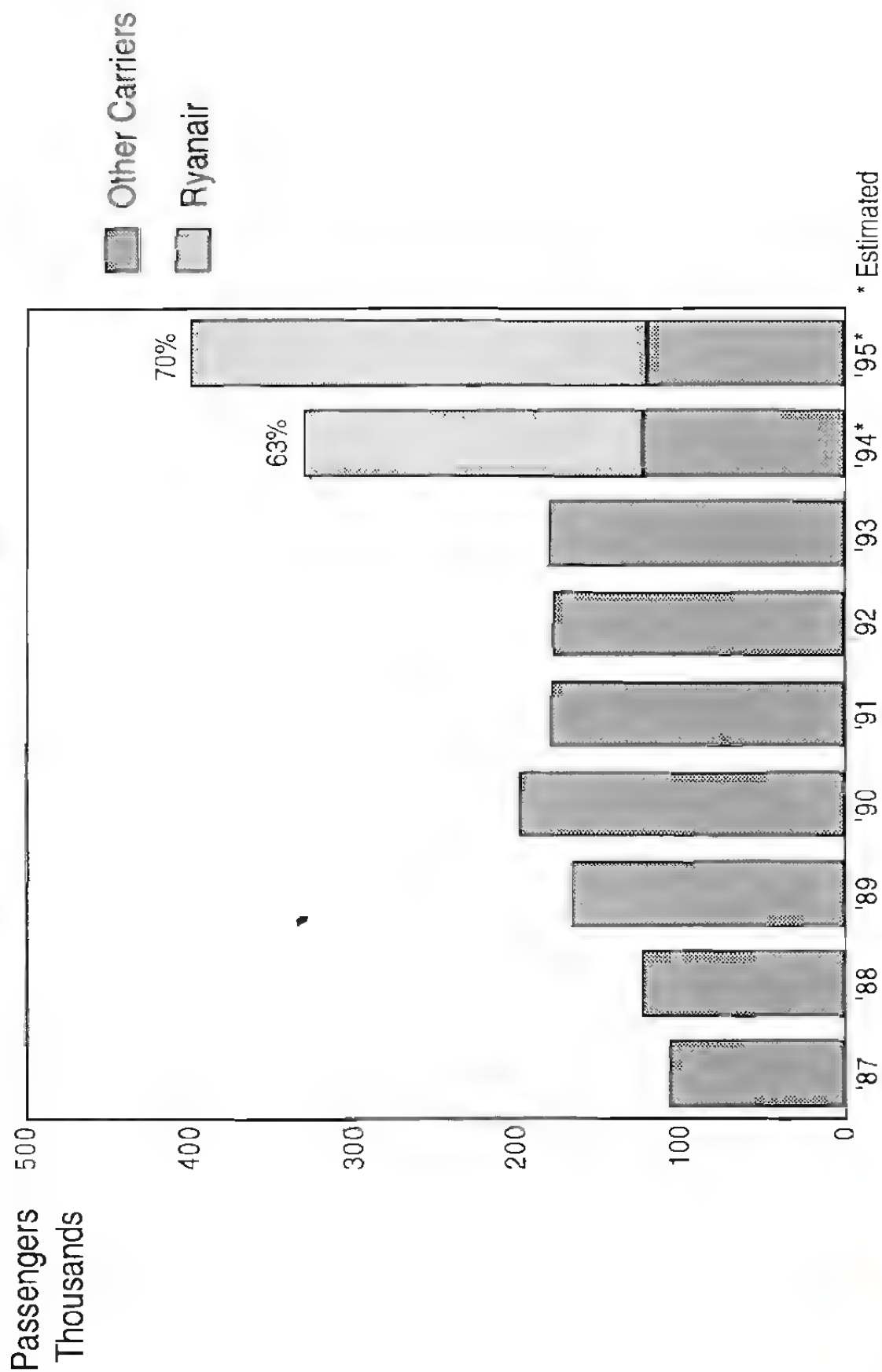
## Dublin - Birmingham Traffic Growth

"The Ryanair Factor"

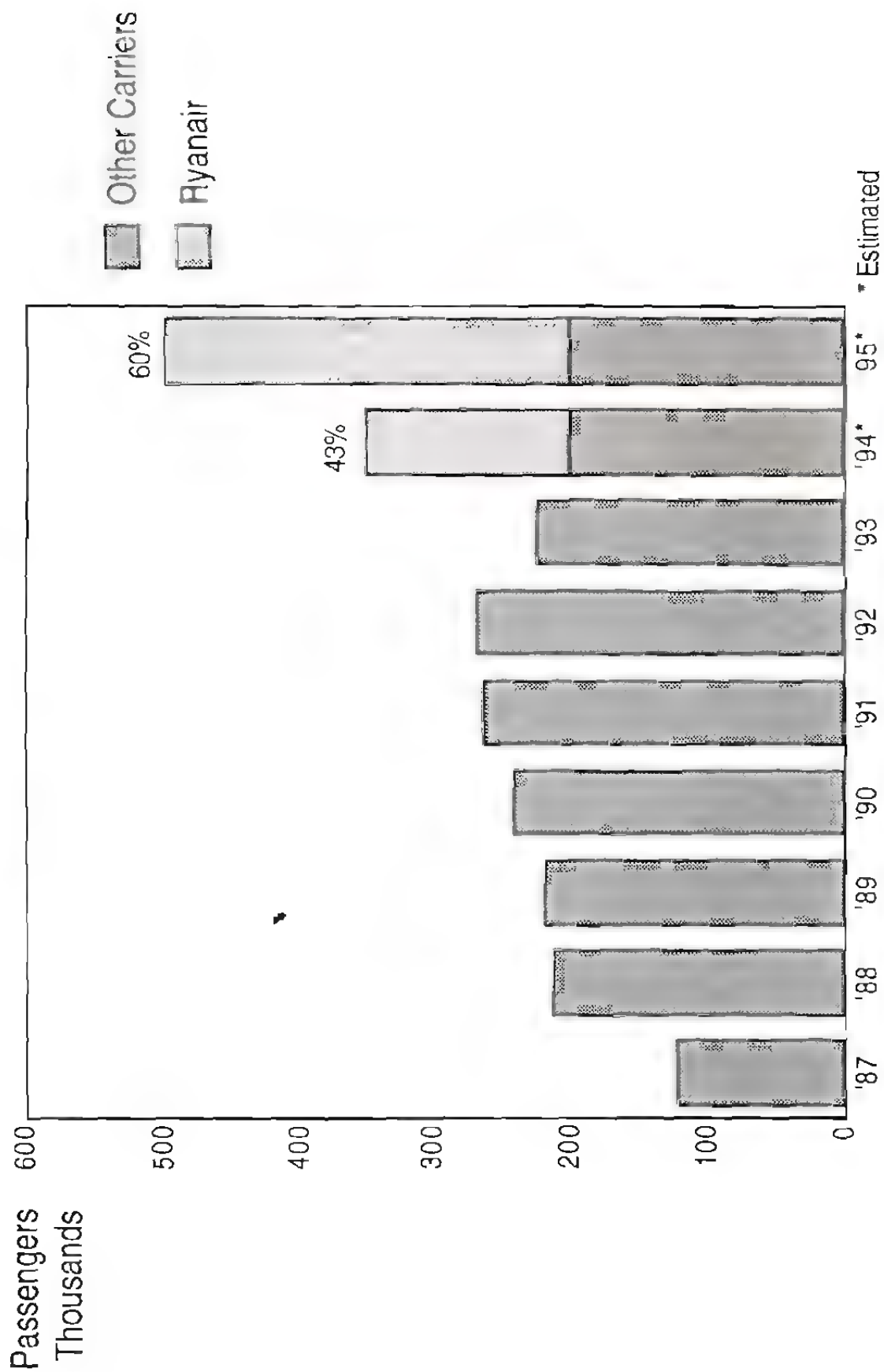




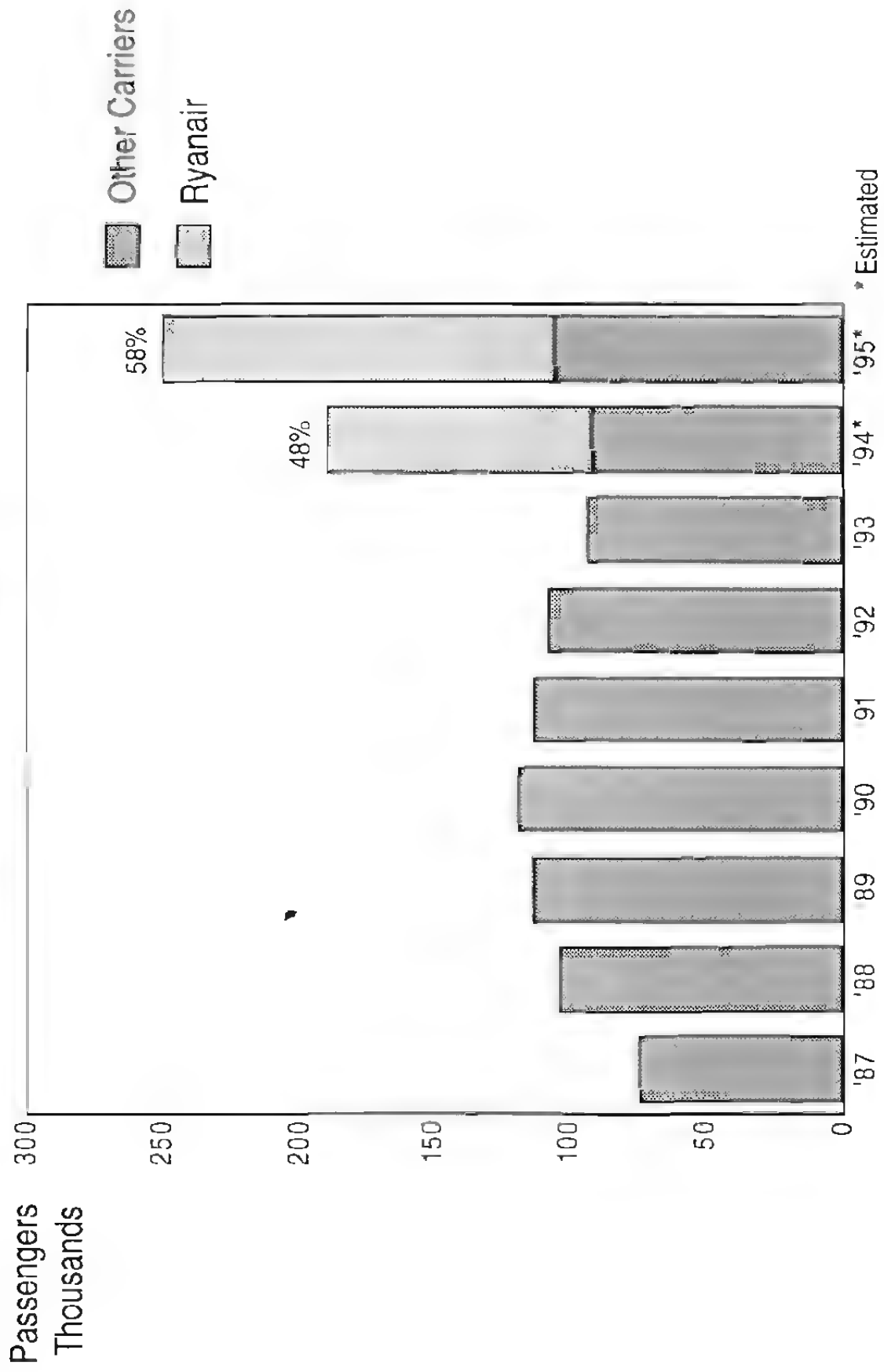
# Dublin - Birmingham



# Dublin - Manchester

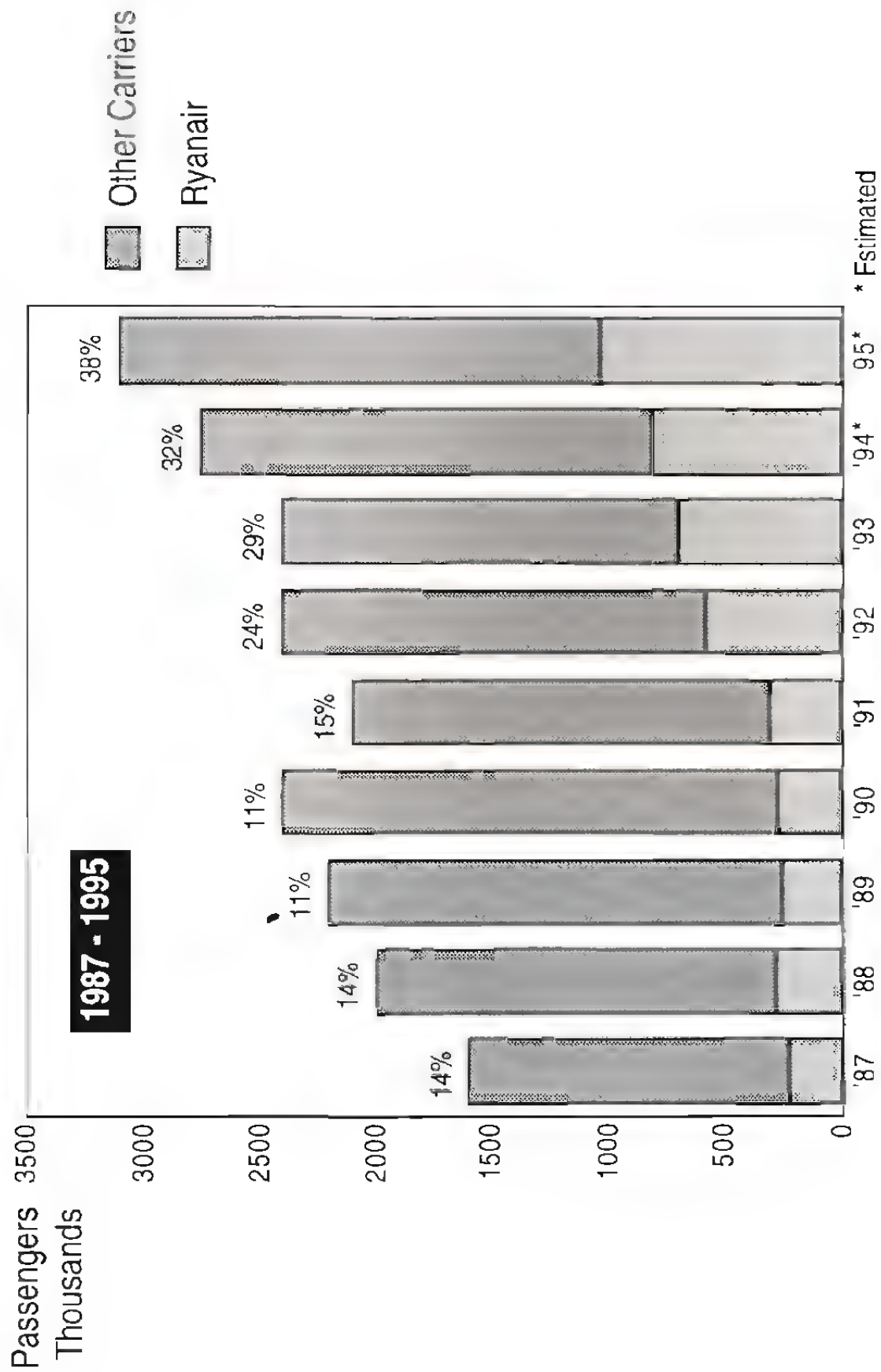


## Dublin - Glasgow



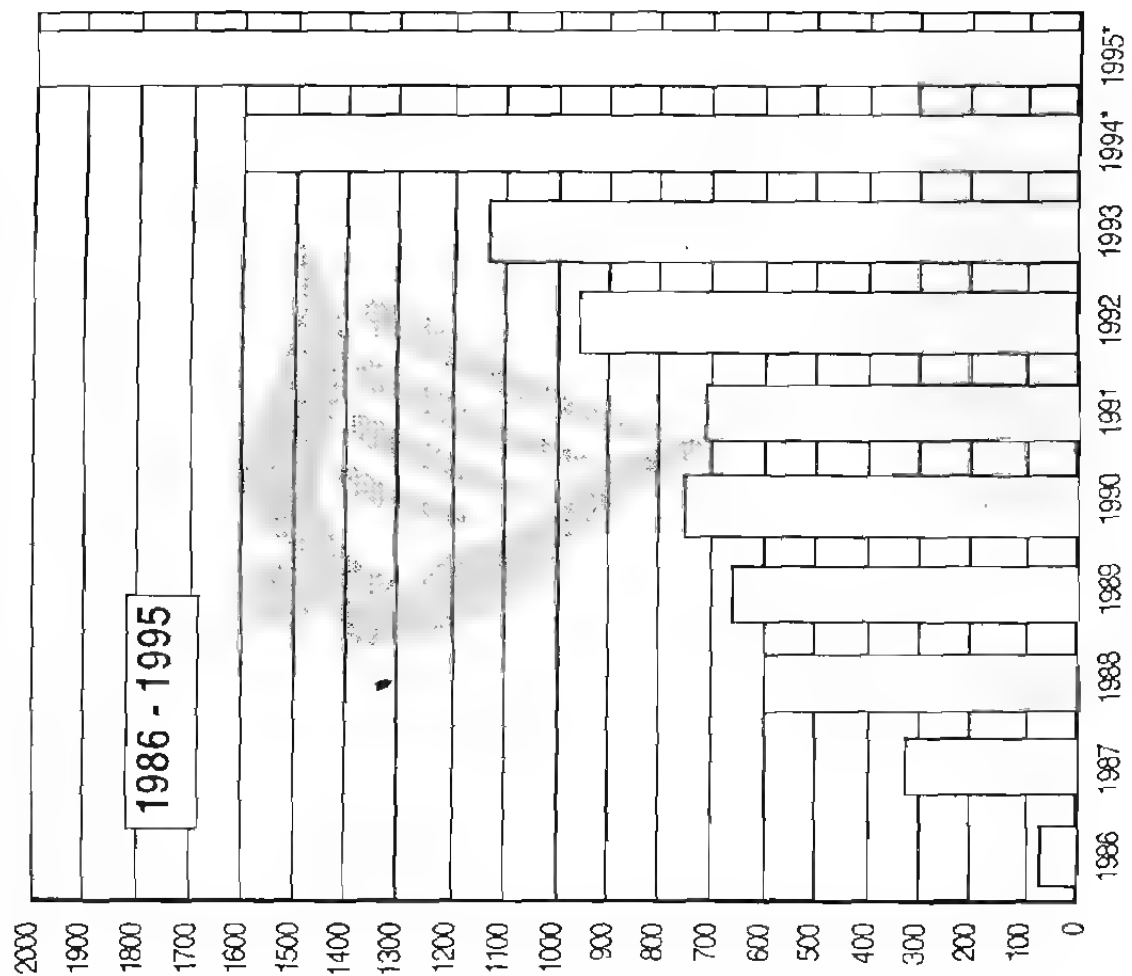


# Dublin - London



# Ryanair Limited

## Total Passenger Carryings



## Why Ryanair is Successful

- ✔ Sticks to a policy of running a low-cost, point-to-point and "no frills" operation
- ✔ Operates only one aircraft type B737 - high productivity and efficiency
- ✔ Excellent employee to aircraft ratio - **50:1**
- ✔ Operates into niche/secondary airports in the UK
- ✔ Young and well-educated workforce
- ✔ Short aircraft turnarounds - focus on "daily" aircraft efficiency
- ✔ Prepared to subcontract services such as heavy maintenance, airport handling, etc.
- ✔ Airline now well established - Irish household name - 1995 will mark its 10th anniversary
- ✔ Easy and flexible fare structure
- ✔ Good standing with EU and the Irish government










## How Productivity Pays Off For Ryanair

	AMR*	DELTA*	UAL*	SOUTHWEST*	RYANAIR
Cost per available seat mile	8.9 cents	9.4 cents	9.6 cents	7.0 cents	6.8 cents
Passengers per employee	840	1,114	795	2,443	3,077
Employees per aircraft	152	134	157	81	50






\* Source : Fortune Magazine, May 2, 1994

## Southwest Airlines

 Costs ... Costs ... Costs	
 Low fares	
 Fleet commonality (Boeing 737)	
 Efficient operations	<ul style="list-style-type: none"><li>- short stage lengths</li><li>- point to point service</li><li>- no frills service</li><li>- short turnarounds</li></ul>
 Aircraft productivity	
 People productivity	
 Kelleher culture	

# Replicating Southwest In Europe






## The Challenge - Phase One

	Costs ... Costs ... Costs	
	Re-educate the management	
	Re-educate the people	
	Re-educate the customer	
	Service	- fares - delivery - safety - friendly



# Replicating Southwest In Europe

## The Challenge - Phase Two

	Costs ... Costs ... Costs	
	Airports	- efficient facilities - simple facilities - secondary fields
	Computer reservations systems	
	Eurocontrol	
	E.C.	- legislation & enforcement - competition - state aid - active intervention



**RYANAIR**